
SOUTHERN SUDAN

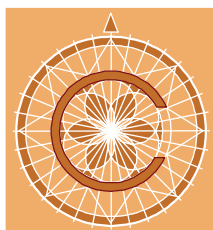


Agricultural Enterprise Finance Program (AEFP)

NINTH QUARTERLY REPORT

|October 1, 2004 – December 31, 2004

Submitted by:



CHEMONICS INTERNATIONAL INC.

January 2005

Under Contract No. 623-C-00-02-00087-00

USAID/REDSO/ECA

Nairobi, Kenya

EXECUTIVE SUMMARY

In September 2002, Chemonics International was awarded the Southern Sudan AEFP contract, a 5-year effort to establish a self-sustaining micro-finance institution (MFI) in Southern Sudan and provide access to working capital for micro-entrepreneurs. AEFP is a key part of the \$22.5 million Southern Sudan Agricultural Revitalization Program (SSARP), which is managed by the USAID Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA), in close consultation with agriculture advisors based in USAID/Washington.

Key AEFP accomplishments and activities during this reporting period:

- Finalize SUMI Constitution with Expanded Board
- Complete office construction in Maridi
- Begin construction of the Rumbek Office
- Extend salary loans in Maridi and Yambio
- Hire staff for Rumbek branch
- Train staff for Rumbek branch
- Conduct Stakeholders workshop on microfinance
- Develop an individual loan product
- Finalize attachment of Bank of South Sudan staff to Bank of Uganda

For the Tenth quarter, January 1 – March 31, 2005, the major AEFP activities will be to:

- Begin outreach & borrower group formation in Rumbek
- Complete office construction in Rumbek
- Extend group loans in Yei, Yambio and Maridi
- Extend group loans in Rumbek
- Initiate research third loan product
- Train staff in computerized MIS
- Finalize board constitution and by laws

1. Contractor's Report

A. Background

The Agricultural Enterprise Finance Program (AEFP) is a key part of the 5-year \$22.5 million Southern Sudan Agricultural Revitalization Program (SSARP), which is managed by the USAID Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA), in close consultation with agriculture advisors based in USAID/Washington. The other SSARP components include the establishment of six agricultural training centers and a data collection and analysis center. These other activities are implemented by the Catholic Relief Services (CRS) Consortium – comprised of CRS, Winrock International, Vetrinarians sans Frontiers-Belgium (VSF-Belgium), and SUPRAID (a Sudanese NGO) – through a competitively awarded cooperative agreement. Additionally, a Participating Agency Service Agreement (PASA) with USDA provides supplemental technical support and other resources to the SSARP through a pilot activity fund. This document serves as AEFP's Ninth *Quarterly Performance Report*, covering the period October 1, 2004 through December 31, 2004. It also describes work planned for the coming quarter.

The Agricultural Enterprise Finance Program (AEFP) is in the process of establishing a viable, self-sustaining financial services organization in Southern Sudan in order to provide access to working capital for micro-entrepreneurs. The activity directly supports aspects of REDSO/ESA's 3-year interim strategy for Sudan under Strategic Objective number 8 (SO8), "Foundation Established for Economic Recovery." It specifically supports Intermediate Result 8.2 and 8.3, "Market Support Institutions Created and Strengthened" and "Market Support Programs and Services Introduced and Expanded." SO8 is one of the four objectives that comprise USAID's Sudan Integrated Strategic Plan, 2003-2005.

Established in June 2003 and opened for business in September of the same year, the Sudan Microfinance Institution (SUMI) is designed to foster expanded economic opportunity among Southern Sudanese and constitute an added incentive for Internally Displaced People (IDPs) and refugees to return to their homes through the provision of micro financial services. During the first phase (five years) of the MFI's development, a microfinance loan program is being launched, which began with a group-based loan product in Yei, South Sudan. As it matures, the MFI will test various loan products, based on both client demand and repayment experience. A salary loan product was developed and successfully released in Yei in June 2004. Later, through a careful analysis of the willingness and capacity of borrowers to repay, it will be determined whether the MFI should diversify and offer some larger-sized loans to small businesses. Cost-recovering interest and fees are being charged by the MFI in order for it to fully cover operational costs by the end of the fifth year of the project.

A second phase of the AEFP may be exercised, based on the experience of the first five years, with the intent of transforming the MFI into a formal bank, introducing a savings component, supporting further geographic expansion, addressing small business finance needs, and achieving full financial self-sufficiency by covering all financial costs, including the opportunity cost of capital. USAID will determine the disposition of the loan capital fund at the end of Phase I, but anticipates that a successfully operating microfinance institution will be allowed to retain the fund as its loan capital, if AEFP objectives have been achieved and are likely to be sustained in the future.

AEFP is intended to support individual agribusiness entrepreneurs, very broadly defined, in all agriculture sub-sectors, including qualified applicants that have graduated from the training centers to be supported by other components of the Southern Sudan Agriculture Revitalization project. Women will constitute a special target group for micro-lending services. To increase the likelihood of sustainability

through achieving some economy of scale, people in regional population centers will be the main beneficiaries of Phase One.

AEFP Oversight. The Southern Sudan Agricultural Enterprise Finance Program (AEFP) is guided by the SSARP Program Steering Committee. This committee meets biannually and identifies focal areas for program coverage and formulates and concurs with major policies that guide the program. The 10-member Program Steering Committee is comprised of USAID, Natural Resources Management and Utilization Committee (NRMUC), the Development Assistance Technical Team (DATT), and the Southern Sudan Commissioners of Agriculture and Animal Resources, Wildlife and Tourism, Finance, Commerce, Education, Health, and Women and Family Affairs.

Additionally, AEFP receives guidance and support on implementation matters from a Technical Task Force (TTF). The 17-member TTF meets quarterly and is comprised of representatives from the Southern Sudan Departments of Agriculture, Forestry, Fisheries, and Livestock; representatives from the Secretariats of Wildlife and Tourism, Commerce, Finance, and Women and Family Affairs; representatives from the Nuba Mountains and Southern Blue Nile regions; DATT; NRMUC; the Data Center; USAID; and the Chiefs of Party from Chemonics and CRS.

B. Expected Results

Under its 5-year contract as the implementing contractor, Chemonics International has committed to establishing a self-sustaining microfinance institution (MFI) in Southern Sudan that will achieve the following performance measures by the end of Phase One:

- 1 \$3 million in loans by the end of the fifth year;
- 2 100 percent operational sustainability, through complete coverage of operating costs of administration and expendable supplies; and
- 3 At least three loan products available to clients by the end of the fifth year.

To reach these results, Chemonics is also intent on assisting the new Sudanese MFI, SUMI, to meet the following operational and social development parameters:

- 1 50 percent of loans made to women;
- 2 10 percent of loans made to reintegrated internally-displaced persons (IDPs) and returned refugees

While adhering to a strict financial systems model of microfinance services delivery, these social development parameters have been fully incorporated into SUMI's initial mission statement and business plan.

C. Year Three: Current AEFP Activities

During its third year of operation, the Agricultural Enterprise Finance Program (AEFP) will continue to focus on continued development of SUMI's institutional and operational systems, physical infrastructure, training, and human resources necessary to expand **operations successfully.**

Running from October 1, 2004 through September 30, 2005, the Year Three activities are divided into six program sub-components:

- 1 Establishing and developing SUMI's operations**
- 2 Expanding SUMI's geographic coverage**
- 3 Developing loan products**
- 4 Training**
- 5 Microfinance policy and regulation**
- 6 Program management and reporting**

Below, each of the AEFPP subcomponent activities are summarized, highlighting tasks accomplished in the Ninth Quarter (October 1 – December, 2004), and tasks planned for the Tenth Quarter (January 1 – March 31, 2005) as contained in the third year work plan. The task numbering corresponds to the task numbers for each activity in the annual work plan. The Year Three Work Plan Chart is included for reference in Annex A of this document.

C1. Subcomponent 1: Establish and Develop MFI Operations

Establishing and developing SUMI's operations will be the central task of program activities for year three. This will include community outreach in each of the communities where branches are opened, borrower group formation and training, development and institutionalization of the MFI operations systems (including the drafting of an operations manual), and the development of an integrated MIS system for multiple branches. Finally, it will also include capacity development of the MFI Board of Directors.

Subcomponent 1: Tasks completed in the Ninth quarter, October 1 – December 31, 2004:

Task 1.1: Continue community outreach and borrower group formation in Yei. SUMI staff continued community outreach and borrower group formation in Yei. A total of 822 clients are accessing group loans through SUMI.

Task 1.2: Board of Directors meeting and capacity development. . The Board of Directors held a meeting and approved the 2005 annual budget as well as incentives for staff.

Task 1.4: Begin community outreach and borrower group formation in Yambio and Maridi. The Maridi and Yambio branches continued community outreach and borrow group formation. As at the end of this quarter Maridi had registered approximately 292 clients and Yambio had registered a total of 288 clients.

Task 1.5: Work out integrated MIS system for multiple branches. It is anticipated that the installation of the MIS system will take place during the third year of implementation

Sub-component 1: Tasks to be completed in the Tenth quarter, January 1 – March 31, 2005:

Task 1.1: Continue community outreach and borrower group formation in Yei. SUMI staff will continue outreach and borrower group formation in Yei. This activity will continue indefinitely.

Task 1.2 Begin outreach and borrower group formation in Rumbek. After finishing their microfinance training in November/December 2004, the newly-hired staff will begin community outreach and borrower group formation in Rumbek during this quarter.

Tasks 1.3: Board of Director Meetings and capacity development. The Board of Directors will hold their regular quarterly meeting it discuss institutional performance and issues. A board training will also be held during the quarter to develop the constitution and by laws that will govern the board.

Task 1.3. Continue community outreach and borrower group formation in Maridi and Yambio. The AEFPP Team will continue to assist the Maridi and Yambio branch offices to extend the group loan product. This activity will continue indefinitely.

Task 1.4: Work out integrated MIS system for multiple branches. The AEFPP team has identified a banking MIS application. The installation of the system will be done during the tenth quarter subject to the AEFPP contract modification.

Task 1.5: finalize SUMI Constitution with expanded Board of Directors. Ones new board members from the other areas of SUMI operations are selected, the AEFPP tem will assist the Board to finalize a constitution.

C2. Subcomponent 2: Expand MFI Geographical Coverage

During year three of the program, the AEFPP team will assist the SUMI staff and Board of Directors to expand operations to the fourth community, Rumbek. Client recruitment and saving mobilization is expected to start during the quarter while lending in this fourth community will start in the eleventh quarter.

Subcomponent 2: Tasks completed in the Ninth quarter, October – December 31, 2004:

Task 2.3: Complete construction of the Yambio and Maridi. Construction of the Yambio office was completed and occupied during this quarter, however, some delays were experienced in the completion of the Maridi office and is now scheduled for completion during the tenth quarter.

Task 2.4: Identify office space for 4th MFI office. Land for the construction of the 4th office was identified, acquired and construction initiated during the ninth quarter. The construction is scheduled for completion in April 2005.

C3. Subcomponent 3: Develop Loan Products

Using the information gathered in the micro enterprise market survey, at least two pilot loan products were developed in year two of the AEFPP. The first two loan products are a group-based loan product and a salary -guaranteed loan product available to employees of NGOs and other institutions in the communities where SUMI branches have opened. In year three, a third loan product will be introduced, likely an individual loan product aimed at larger microenterprises with greater capital needs, and some form of collateral. However, it will first be necessary to carefully analyze the local legal framework in place that will be used to enforce loan repayment and collateral collection. This analysis will be used to create the legal loan document that the borrower will sign, as well as the procedures to be followed in giving these larger, riskier loans. If an individual loan product is not feasible, the research will be used to develop an alternative loan – possibly a group-based product.

Subcomponent 3: Tasks completed in the Ninth quarter, October 1 – December 31, 2004:

Task 3.4: Pilot test and extend employer-guaranteed loan product in Yei. Yei branch continued to expand its salary loan portfolio. The salary loan portfolio reduced as the end year drew to a close, because it is tied to employees' contracts that in most cases run from January to December. The portfolio is at its highest during the next quarter when new contracts are issued.

Subcomponent 3: Tasks to be completed in the tenth quarter, January 1 – March 31 2005:

Task 3.5: Extend employer-guaranteed loan product in Yambio and Maridi branches. The AEFPP team will assist the MFI staff to extend the salary -guaranteed loan product to the branch offices in Maridi and Yambio. This will begin with making presentations to those institutions whose employees have expressed an interest. The institutions will then sign a memorandum of understanding with SUMI.

Task 3.6: Research and develop potential individual loan product. SUMI management initiated the development of an individual loan product mostly as a reaction to client pressure. The rolling out of this product will however be delayed to take advantage of the new legal structures expected with new government.

However, to address the issue of clients graduating from group loans in Yei, SUMI is issuing bigger loans, while retaining the group structure for pressure and guarantee.

C4. Subcomponent 4: Training

Because of the importance of training in this microfinance initiative, we have included it as a separate activity, though it will be fully integrated with the MFI operational development activities in subcomponent one, above. Training activities are a critical counterpart to establishing and developing the MFI operations, as well as expanding the MFI's geographical coverage and developing and delivering each of the loan products.

Subcomponent 4: Tasks completed in the ninth quarter, October 1 – December 31, 2004:

Task 4.1: Hire Staff for Rumbek Branch. Applications for the position of; Branch Manager, Book keeper, loan officers and office assistant, for the Rumbek office were received, interviews conducted and recruitment done during this quarter. The response from Rumbek candidates was very poor, leading to the hiring of staff from other areas of South Sudan.

Task 4.2. Train staff for Rumbek branch. Training for the newly recruited Rumbek staff and other new recruits for the existing branches took place during the month of November in Yambio. The staff was later attached to the existing branches for hand on experience.

Task 4.3: Train SUMI managers. Training for SUMI managers in credit and branch management was done in November in Arua. The training focused on the branch management function, reporting – use of the various reports in management, portfolio management and performance monitoring.

Considering that most SUMI staff had no work experience at all, their training needs are high and varied. There is a critical need to continue training them until they achieve the highest standards of efficiency.

Subcomponent 4: Tasks to be completed in the tenth quarter, January 1, – March 31 2005:

Task 4.4: Training staff in computerized MIS. In the first three quarters, AEFP and the firm supplying the software will train SUMI staff in the computerized management information system (MIS). Training will begin at the SUMI head office and then extend to each branch as the software is installed. All four branches will be trained in the new MIS which is expected to be operational by the end of second quarter of year three.

AEFP is also planning to train the staff in delinquency management which seems to be a weak area right now.

C5. Subcomponent 5: Microfinance Policy and Regulation

As SUMI is setting up operations, SPLM policymakers have been developing a financial regulatory framework for South Sudan. A Financial Institutions Act, a Business Law, and an NGO Law have all been recently signed and put in place. It will be critical for the AEFP program to stay abreast of these policy developments and their implementation, especially as they will affect how microfinance is regulated. When called upon, Sudan AEFP staff will provide guidance and resources to assist in the policy development process as it affects microfinance. The tasks for this subcomponent are necessarily broad, as the exact nature of the policy assistance will need to be agreed upon with the SPLM and USAID.

Subcomponent 5: Tasks completed in the ninth quarter, October 1, – December 31 2005:

Task 5.1: Liaise with SPLM policymakers regarding microfinance policy. A mid-term review of the AEF program was conducted in September and the outcome was shared at the stakeholders' workshop in October. The proceedings of the workshop will be distributed to the participants during the next quarter.

Task 5.2: Provide training and/or short-term policy expertise as needed. The six proposed Bank of Sudan staff successfully completed two-month attachment at the Bank of Uganda that was co-ordinated by Chemonics at the request of USAID.

Subcomponent 5: Tasks to be completed in the Tenth quarter, January 1 – March 31 2005

Task 5.1: Liaise with SPLM policymakers regarding microfinance policy. The AEFP chief of party and microfinance specialist will continue to liaise with the relevant SPLM authorities regarding financial and micro-financial policy in South Sudan.

C6. Subcomponent 6: Program Management and Reporting

The third year will require a number of program management and reporting activities, as required in the Chemonics' contract and agreements made with the PSC and TTF. Activities in this subcomponent for the Eighth quarter are listed below.

Subcomponent 6: Tasks completed during the Ninth quarter, October 31 – December 31, 2004:

Task 6.1: Submit quarterly report. The quarterly report for the Eighth quarter, July 1 through September 30, 2004, was submitted to USAID and the TTF in November 2004.

Task 6.4. Conduct Stakeholders' workshop in microfinance. In October, the AEFPP team facilitated a stakeholders' workshop to discuss the future of microfinance in Southern Sudan. The workshops were held in Nairobi and Yei respectively. A report on the proceedings of these workshops will soon be distributed to the participants.

D. Performance

Current status vs. expected end of contract results. Chemonics International is committed to establishing a self-sustaining microfinance institution (MFI) in Southern Sudan by the end of the 5-year contract in September 2007. Below, each project result is listed, followed by its current status:

Expected end of project results:

- *\$3 million in outstanding loans by the end of the fifth year.*

Current Status: By the end of December 2004, 2,020 cumulative group loans had been disbursed as follows:

- 1,230 first loans
- 550 Second loans
- 173 third loans.
- 67 fourth and fifth loans.

Additionally 305 salary loans had been disbursed to employees of organizations based in Yei. The value of the cumulative disbursements amount to Ush. 733,084,400 (\$ 449,468), with an outstanding loan balance of Ush. 199, 122,796 (\$ 115,769). Additionally, Ush. 57,056,327 million (\$33,172) had been collected in compulsory savings from 2,325 clients of the group and salary loan products. Approximately 30 percent of the total client population is women. (An average exchange rate of Ush. 1, 720/\$1 has been used.)

- *100 percent operational sustainability, through complete coverage of operating costs of administration and expendable supplies.*

Current Status: Yei branch maintained its high sustainability by covering 99% of its operating costs in December 2004. By the end of December the branch had also covered 69% of its total operating costs since inception. This was up from 57% realized by September 2004. The branch is now financing most of its operations after a gradual phase out of the grant. The increased sustainability index is attributed partly to the increased portfolio from salary loans and bigger repeat loans.

On the other hand, Maridi and Yambio branches were able to cover 39% and 25% of their December costs respectively. Overall Maridi is covering 27% of its total costs since inception, while Yambio is covering 18%.

- *At least three loan products available to clients by the end of the fifth year.*

Current Status: SUMI has two loan products that have been operational for at least one year – a group loan and salary guaranteed loan. Both products are functioning well in the market. The salary loan has only been tested in Yei and will be extended to the other branches this quarter.

To reach these results, Chemonics is also intent on assisting the new Sudanese MFI to meet the following operational and social development parameters:

- *50 percent of loans made to women*

Current Status: Of the 2,325 clients registered in three SUMI branches, about 30 percent are women. There is a marginal 2% increase in the number of female clients since the last quarter, when the ratio was 28% women. Maridi branch has the lowest number of female clients with a ratio of only 22% while Yambio has 32%.

- *10 percent of loans made to reintegrated IDPs and returned refugees*

Current Status: From the client registration documents more than 10 percent of SUMI group loan clients are returned IDPs and over 50 percent are returned refugees, which exceeds the projects target of 10 percent.

F. Financial Report

The following expenditures have been incurred under the AEFPP contract:

Contract value:	\$6,977,168
Expenditures through September 30, 2004:	\$2,541,755
Expenditures this quarter, September 30 – December 31, 2004:	\$491,186
Cumulative expenditures to date (Thru 12/31/04)	\$3,032,941
Contract Funds Remaining:	\$3,944,227
Funds currently obligated, as of December 31, 2004:	\$5,550,000
Obligated Funds Remaining:	\$2,517,059 (45%)

AEFP's current financial status according to the budget breakdown in the AEFPP contract is as follows:

Cost Elements	Budget	Expended to Date (Thru 12/31/04)	Contract Funds Remaining	Percent of Funds Remaining
Chemonics Direct Costs	\$2,230,988	\$1,838,352	\$392,636	18%
Chemonics Indirect Costs	\$1,083,840	\$715,170	\$368,670	34%
Operating Costs of Sudanese MFI	\$546,500	\$234,725	\$311,775	57%
Microfinance Loan Fund	\$3,000,000	\$159,447	\$2,840,553	95%
Fixed Fee	\$115,840	\$85,247	\$30,593	26%
Grand Total	\$6,977,168	\$3,032,941	\$3,944,227	57%

* Includes disbursements out of the Loan Capital account set up in Uganda through an advance disbursement mechanism set up with USAID.

Annex A:
AEFP Year Three Work Plan Chart

Annex B:
Sudan Microfinance Institution (SUMI)
Client Stories



John Mayom runs a mixed Retailing business in Maridi town market. He applied for his first loan in June 2004 and which he has since repaid. He is currently on his third loan of Ugs 500,000. The loan facility provided by SUMI has enabled him build a small store. He has plans of starting up a grinding mill business with his next loan.



Samuel Abdkuk runs his business in Yei market. He is currently on his fourth loan (US\$ 1,750,000).

Mr. Abdkuk attributes his business success and expansion to the services provided by SUMI. The loans he has received from SUMI to date have enabled him increase his capital, acquire a plot on which he has built some Tukuls (huts), managed to send some of his children to secondary while maintaining the rest in primary school. Mr. Abdkuk would like to see SUMI increase its loan size to amounts that can enable him acquire assets such as grinding mills and vehicles, to support his business more effectively

Sudan Microfinance Institution (SUMI)
Maridi Expansion Update

Maridi



Construction progress on the SUMI Maridi Branch. The office will be ready for occupancy by the end of January 2005.